

Message Text

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PAGE 01 MUSCAT 00304 180416Z

16

ACTION NEA-07

INFO OCT-01 SS-14 ISO-00 EUR-08 EB-03 NSC-05 NSCE-00 INR-05

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FM AMEMBASSY MUSCAT

TO SECSTATE WASHDC 1930

INFO AMEMBASSY ABU DHABI

AMEMBASSY JIDDA

AMEMBASSY KUWAIT

AMEMBASSY LONDON

AMEMBASSY TEHRAN

C O N F I D E N T I A L MUSCAT 0304

LIMDIS

E.O. 11652: GDS

TAGS: ENRG MU

SUBJECT: OMAN GOVERNMENT RENEGOTIATING OIL PRICES

REF: (A) 75 MUSCAT 1419, (B) MUSCAT A-03

1. ON MARCH 9, OMANGOV BEGAN NEW ROUND OF NEGOTIATIONS WITH PRIVATE SHAREHOLDERS OF PETROLEUM DEVELOPMENT (OMAN). REPRESENTING OMANGOV ARE DEPUTY DIRECTOR OF CENTRAL BANK YUSUF NIMATALLAH, IBRD ADVISOR SHARIF LOTFY, AND ASSORTED REPRESENTATIVES OF THE MINISTRY OF AGRICULTURE, FISHERIES, PETROLEUM AND MINERALS, WHILE PRIVATE PARTNERS ARE LED BY SHELL. OMAR ZAWAWI, PETROLEUM MINISTER SHANFARI, AND OTHER HIGH-LEVEL OFFICIALS INVOLVED IN PREVIOUS NEGOTIATIONS LAST AUTUMN HAVE NOT YET TAKEN DIRECT ROLE IN CURRENT ROUND. WE HAVE HEARD THAT NEGOTIATIONS ARE BEING CONDUCTED MORE AMICABLY THAN WAS THE CASE LAST AUTUMN.

2. THE TWO SIDES ARE NOT VERY FAR APART ON REVISIONS TO POSTED PRICE, FOR WHICH OMANGOV WAS PRESSING LAST DECEMBER (REF A).

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PAGE 02 MUSCAT 00304 180416Z

MAIN POINT OF CONTENTION IS OMANGOV TAX AND ROYALTY RATES ON

EQUITY CRUDE. SHELL NEGOTIATORS WISH TO ENSURE THAT IF TAKE TO OMANGOV IS RAISED, SHELL WILL OBTAIN INCREASED TAX SHIELD TO APPLY TO ITS OTHER INCOME WORLDWIDE. IN ANY EVENT, SHELL WILL PROBABLY END UP WITH NET CASH FLOW PER BARREL OF 29 OR 30 CENTS.

3. THERE ARE INDICATIONS THAT OMANGOV IS GRADUALLY MOVING TOWARD GREATER DEGREE OF OWNERSHIP OF PD(O). SOME OBSERVERS BELIEVE THAT THE COMPANY WILL BE WHOLLY OWNED BY GOVERNMENT BY END OF THE DECADE. EVEN IF THIS OCCURS, HOWEVER, SHELL MAY NOT WITHDRAW OUTRIGHT FROM OMAN OPERATIONS. LEADING OMANGOV OFFICIALS ARE ANXIOUS TO AVOID UNNECESSARY CONFRONTATION WITH SHELL AND APPRECIATE SHELL'S ABILITY AND WILLINGNESS TO MARKET ALL CRUDE PRODUCED IN OMAN DESPITE SOFT WORLDWIDE MARKET. WHILE CERTAIN EXPATRIATE ADVISORS ARE RUMORED TO BE SEEKING MUCH SHARPER CONFRONTATION WITH SHELL, WE HAVE HEARD THAT THEY CONTINUE TO BE HELD IN CHECK BY MORE RESPONSIBLE MEMBERS OF GOVERNMENT.

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